

FINANCIAL AUDIT  
OF THE  
TRANSITION IN THE OFFICE OF STATE TREASURER  
DEPARTMENT OF TREASURY

As of April 30, 2001

March 7, 2002

Dr. Douglas B. Roberts  
State Treasurer  
Treasury Building  
Lansing, Michigan

Dear Dr. Roberts:

This is our report on the financial audit of the Transition in the Office of State Treasurer, Department of Treasury, as of April 30, 2001.

This report contains our description of agency, audit objective and audit scope, receipt of State Treasurer, and independent auditor's report on the financial schedule. This report also contains the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer as of April 30, 2001 and the note to the financial schedule.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

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## Description of Agency

Douglas B. Roberts was appointed State Treasurer effective May 1, 2001. His immediate predecessor, Mark A. Murray, was appointed State Treasurer effective January 10, 1999. The Governor appoints the State Treasurer with the advice and consent of the Senate.

The State Treasurer manages the State's cash so that amounts not needed to pay immediate obligations are invested to earn income. The State Treasurer's Common Cash accounts for the investment of this cash.

The State Treasurer is the investment fiduciary and/or investment custodian for State-administered retirement funds. The State Treasurer is also responsible for the investment function as it relates to State government in general.

The State Treasurer has various other responsibilities that result in the possession or control of cash and investments. These responsibilities consist of:

1. Serving as the treasurer for the Mackinac Bridge Authority.
2. Acting as fiscal agent for the Michigan State Hospital Finance Authority, Michigan Family Farm Development Authority, Michigan Education Trust, Michigan Underground Storage Tank Financial Assurance Finance Authority, and State Treasurer's Escrow and Paying Agent Fund.
3. Receiving and processing assets (unclaimed property) required by statute to be escheated to the State.
4. Holding collateral pledged to the State for various purposes.

## Audit Objective and Audit Scope

### Audit Objective

Our financial audit of the Transition in the Office of State Treasurer, Department of Treasury, was required by Section 12.10 of the *Michigan Compiled Laws*:

Upon the death or resignation of the state treasurer, or upon a vacancy in the office of state treasurer from any other cause, the auditor general shall perform an audit of cash and securities in the possession or under the control of the state treasurer.

Our objective was to audit the schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer as of April 30, 2001.

### Audit Scope

Our audit scope was to examine the financial and other records of the Department of Treasury relating to cash, investments, and pledged collateral as of April 30, 2001. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

RECEIPT OF STATE TREASURER

I, Douglas B. Roberts, serving as State Treasurer of the State of Michigan, effective May 1, 2001, hereby acknowledge receipt, possession, and control of the items listed below, as reported on by the Office of the Auditor General in its financial audit of the Transition in the Office of State Treasurer, Department of Treasury, as of April 30, 2001, from Mark A. Murray, my immediate predecessor:

State Treasurer's Common Cash	\$ 4,579,222,487
Specific Funds' Investments	51,545,049,869
Other Cash and Investments	253,857,964
Collateral Pledged to the State Treasurer	829,251,000
Total	<u>\$ 57,207,381,320</u>

This receipt is given pursuant to Section 12.10 of the *Michigan Compiled Laws*.

Dated\_\_\_\_\_ Douglas B. Roberts\_\_\_\_\_

ACKNOWLEDGEMENT:

Dated\_\_\_\_\_ Mark A. Murray\_\_\_\_\_

Independent Auditor's Report on  
the Financial Schedule

August 9, 2001

Dr. Douglas B. Roberts  
State Treasurer  
Treasury Building  
Lansing, Michigan

Dear Dr. Roberts:

We have audited the accompanying schedule of cash and investments in the possession or under the control of the State Treasurer and collateral pledged to the State Treasurer as of April 30, 2001. This financial schedule is the responsibility of the Department of Treasury management. Our responsibility is to express an opinion on this financial schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial schedule was prepared solely for the purpose of acknowledging transfer of responsibility for the cash and investments in the possession or under the control of the State Treasurer and the collateral pledged to the State Treasurer upon the transition in the Office of State Treasurer at midnight on April 30, 2001 and is not intended to constitute a complete financial presentation of the State of Michigan, the Department of Treasury, or any individual fund of the State of Michigan, in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the cash and investments in the possession or under the control of the State Treasurer and the collateral pledged to the State Treasurer as of April 30, 2001, on the basis of accounting described in Note 1b and valued as described in Note 1c.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

TRANSITION IN THE OFFICE OF STATE TREASURER  
Schedule of Cash and Investments  
in the Possession or Under the Control of the State Treasurer  
and Collateral Pledged to the State Treasurer  
As of April 30, 2001

State Treasurer's Common Cash

Cash on hand	\$ 276,224
Demand deposits	206,890,172
Time deposits	51,664,000
Time deposits - Marina Loan Program	494,000
Prime commercial paper	4,710,538,479
Emergency municipal loans	<u>42,376,621</u>

Total Assets	\$ 5,012,239,496
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Outstanding warrants	<u>(433,017,009)</u>
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Total State Treasurer's Common Cash		\$ 4,579,222,487
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Specific Funds' Investments

Game and Fish Protection Fund	\$ 241,718
Michigan Veterans' Trust Fund	43,852,953
Game and Fish Protection Trust Fund	51,950,339
Michigan Civilian Conservation Corps Endowment Fund	1,933,739
Michigan Natural Resources Trust Fund	109,427,388
Michigan State Parks Endowment Fund	58,298,382
Children's Trust Fund	6,124,264
Michigan Nongame Fish and Wildlife Fund	725,152
State Lottery Fund	825,128,292
Michigan Higher Education Assistance Authority	1,430,761
Legislative Retirement Fund	151,030,369
State Police Retirement Fund	1,126,827,965
State Employees' Retirement Fund	10,452,299,875
Public School Employees' Retirement Fund	37,643,711,207
Judges' Retirement Fund	299,623,232
Gifts, Bequests, and Deposits Investment Fund	14,506,028
Federal Housing Administration Mortgages Escrow Fund	153,819
Michigan Education Trust	<u>789,862,660</u>

Subtotal Specific Funds' Investments	\$ 51,577,128,143
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Investment sales receivable	42,109,868
Investment purchases payable	<u>(74,188,142)</u>

Total Specific Funds' Investments		\$ 51,545,049,869
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*This schedule continued on next page.*

TRANSITION IN THE OFFICE OF STATE TREASURER  
Schedule of Cash and Investments  
in the Possession or Under the Control of the State Treasurer  
and Collateral Pledged to the State Treasurer  
As of April 30, 2001  
*Continued*

Other Cash and Investments

Mackinac Bridge Authority		
Cash and demand deposit accounts	\$	460,427
Investments		23,661,689
Fiscal Agent:		
Michigan State Hospital Finance Authority		
Demand deposit account		101,787
Investments		9,305,323
Michigan Family Farm Development Authority		
Demand deposit account		75,546
Michigan Education Trust		
Demand deposit accounts		2,761,899
Michigan Underground Storage Tank Financial Assurance Finance Authority		
Cash		1,277
Investments		82,537,821
State Treasurer's Escrow and Paying Agent Fund		
Demand deposit account		1,822,504
Investments		131,598,493
Unclaimed Property Division		
Escheats Fund assets		<u>1,531,198</u>
Total Other Cash and Investments		\$ 253,857,964
<u>Collateral Pledged to the State Treasurer</u>		
For insurance companies	\$	352,706,000
For State deposits		469,545,000
For trust powers		1,500,000
For Michigan State Hospital Finance Authority		500,000
For Michigan Education Trust		<u>5,000,000</u>
Total Collateral Pledged to the State Treasurer		<u>\$ 829,251,000</u>
Total Cash, Investments, and Collateral Pledged to the State Treasurer		<u><u>\$ 57,207,381,320</u></u>

The accompanying note is an integral part of the financial schedule.

## Note to the Financial Schedule

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial schedule reports the cash and investments in the possession or under the control of the State Treasurer and the collateral pledged to the State Treasurer as of April 30, 2001. The financial schedule was prepared solely for the purpose of acknowledging transfer of responsibility for cash, investments, and pledged collateral upon the transition in the Office of the State Treasurer effective at midnight on April 30, 2001.

The financial schedule does not include certain Escheats Fund assets received by the State Treasurer but not recorded at April 30, 2001. The value of those assets has not been determined by Department of Treasury personnel.

State Treasurer's Common Cash: The State Treasurer, under the authority provided by State statute, manages the State's common cash pool. The pooling of cash allows the State Treasurer to invest money not needed to pay immediate obligations so that investment earnings on available cash are maximized. Pool investments are not segregated by fund; rather, each contributing fund's balance is treated as equity in the common cash pool. Outstanding warrants represent those State warrants issued and outstanding at April 30, 2001. These warrants represent an obligation of the State Treasurer's Common Cash.

Specific Funds' Investments: The State Treasurer, under authority provided by State statutes, manages most investments for the State of Michigan. Investment sales receivable and investment purchases payable represent trades of securities entered into prior to May 1, 2001 for which settlement was made after April 30, 2001.

Other Cash and Investments: The State Treasurer has various responsibilities that result in the possession or control of cash and investments. These responsibilities consist of:

1. Serving as the treasurer for the Mackinac Bridge Authority.
2. Acting as fiscal agent for the Michigan State Hospital Finance Authority, Michigan Family Farm Development Authority, Michigan Education Trust, Michigan Underground Storage Tank Financial Assurance Finance Authority, and State Treasurer's Escrow and Paying Agent Fund.
3. Receiving and processing assets (unclaimed property) required by statute to be escheated to the State.

Collateral Pledged to the State Treasurer: The State Treasurer is responsible for or holds collateral for various purposes:

1. Collateral pledged by insurance companies as a condition of conducting business in the State.
2. Collateral pledged by banks to secure deposits of State money.
3. Collateral pledged by banks as a condition of conducting trust operations.
4. Collateral pledged by banks to secure demand deposits of the Michigan State Hospital Finance Authority and the Michigan Education Trust.

b. Basis of Accounting and Presentation

The State Treasurer's Common Cash is reported on the cash basis of accounting. Specific funds' investments are reported on the accrual basis of accounting. Other cash and investments are reported on the cash basis of accounting.

The accompanying financial schedule presents the cash and investments in the possession or under the control of the State Treasurer and collateral

pledged to the State Treasurer. Accordingly, this financial schedule is not intended to constitute a complete financial presentation of the State of Michigan, the Department of Treasury, or any individual fund of the State of Michigan, in accordance with accounting principles generally accepted in the United States of America.

c. Valuations of Investments

All State Treasurer's Common Cash investments are reported at cost.

Specific funds' investments are reported at fair value, except for short-term investments, which are reported at cost.

Mackinac Bridge Authority investments are reported at fair value.

Michigan State Hospital Finance Authority investments are reported at fair value.

Michigan Underground Storage Tank Financial Assurance Finance Authority investments are reported at fair value.

State Treasurer's Escrow and Paying Agent Fund investments are reported at fair value.

Escheats Fund assets consist of:

1. Escheated investments reported at fair value.
2. Coins and currency reported at estimated value.
3. Various types of personal property reported at estimated value at the date initially recorded by the Department of Treasury (see Note 1a.).

Collateral pledged to the State Treasurer is reported at par value.